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ORGANIZATIONAL REWARD SYSTEMS: IMPLICATIONS FOR CLIMATE

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(U) HOUSTON UNIV TX DEPT OF PSYCHOLOGY A P JONES

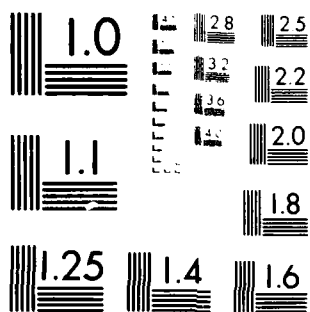
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## Organizational Reward Systems:

## Implications for Climate

Reliance upon aggregated perceptual data to represent organizational influences on individual attitudes and behavior has led to an emphasis on task and role characteristics in current studies of psychological climate. The present study investigates the role of differences in organizational reward structures upon individual perceptions of the reward climate. Nurses in a Naval Hospital worked for the same supervisors but were subject to either tenure-contingent ( $N = 73$ ) or behavior-contingent ( $N = 50$ ) reward systems. No differences in perceived reward climate were found between the two groups. In the tenure-contingent group, job attitudes reflected individual characteristics rather than perceived climate whereas the opposite relationship was found for the behavior-contingent group.

## Organizational Reward Systems:

## Implications for Climate

James and Jones (1974) suggested that the climate literature contained at least two distinct concepts--one psychological and one situational. They argued that these concepts should be treated separately, with each having its own set of theoretical propositions and studies. Since that time, attention to the psychological and perceptual aspects of the work environment (i.e., psychological climate) has led to a much clearer understanding of this concept (cf. James, 1982; James & Jones, 1980; Jones & Butler, 1980; Jones & James, 1979; Joyce & Slocum, 1979; Naylor, Pritchard, & Ilgen, 1980; Schneider, 1975). The same trend has not occurred for the situational concept (i.e., organizational climate). In the research to date, climate measures aggregated to express influences ascribed to the total organization generally have not been effective tools for explaining attitudes and behaviors of individual employees (Jones & James, 1979). In fact, the research has revealed consistently greater similarities in the climate perceptions of individuals in similar jobs from different organizations than was found for dissimilar jobs in the same organization. While such findings may accurately portray a pattern where macro-organizational influences have little direct effect on individual attitudes and behaviors, it is equally possible that they reflect the predominant measurement emphasis on psychologically proximal influences such as role demands and leadership rather than organizational level measures. Thus, if climate is to become a meaningful concept for describing organization-wide conditions, it seems important to expand this focus to include organizational policies and practices that influence individual perceptions and behaviors as

strongly as do job demands and leadership.

One of the most promising areas for such investigation is the organizational punishment and reward climate, that is, the image employees possess about the patterns of behavior that are rewarded or punished by the organization (Arvey & Ivancevich, 1980; Katz & Kahn, 1966; Naylor et al., 1980). For example, previous studies have shown increased attendance at class when there was a compulsory attendance policy (Baum & Youngblood, 1975), higher rates of ethical behavior when a clear organizational policy supported such behavior and discouraged unethical behavior (Hegarty & Sims, 1976), and increased effectiveness of organizational change when the changes were consistent with the organization's normative expectations and value systems (Allen & Dyer, 1980). The reward and punishment climate is likely to include not only formally administered incentive and deterrent systems triggered by such events as productivity or delinquency but also the informal costs and rewards perceived for a variety of alternative behavior patterns (Arvey & Ivancevich, 1980; Bandura, 1977; Luthans, Paul, & Baker, 1981; . Manz & Sims, 1981; Weiss, 1977). For this reason, it seems important to consider at least three different aspects of the perceived organizational reward or punishment climate: (a) perceived incentive systems in terms of conditions or policies that encourage organizationally desirable behavior patterns or discourage undesirable patterns, (b) perceived demotivating systems that lead to reduced effort to accomplish organizationally desirable goals, and (c) perceived disincentive systems that channel employee effort toward goals that are undesirable to the organization or toward goals that are of distinctly low priority to the organization.

### Incentive Systems

The systematic use of organizational rewards and punishments to influence employee attitudes or bring about increased performance is well accepted (Campbell & Pritchard, 1976; Mayes, 1978). Studies in a variety of settings (Barrow, 1976; Kipnis & Consentino, 1969; Oldham, 1976; Szilagyi, 1980) suggest that supervisors respond positively when they perceive high levels of subordinate performance and punitively when they perceive absenteeism or low levels of motivation and performance. In fact, some authors (Evans, 1970; Hamner, 1974) have described the effective leader as one who reinforces efforts that lead to the attainment of organizational goals while punishing or withholding rewards for behaviors that do not.

Such use of reward and punishment to increase subordinate performance seems to be supported by current research. Both laboratory and field studies have shown that contingent rewards lead to increased productivity and satisfaction while withholding rewards for poor performance leads to increased effort and higher performance on later trials (Cherrington, Reitz, & Scott, 1971; Greene, 1973; Keller & Szilagyi, 1978; Pritchard, Leonard, VonBergan, & Kirk, 1976). Punishment also affects the subsequent performance of employees and their effort-to-performance and performance-to-reward expectancies (Cherrington et al., 1971; Keller & Szilagyi, 1976) but with the possible side effect of reduced satisfaction (Szilagyi, 1980).

Given the extensive research, it seems surprising that existing organizational incentive systems are not more effective. There appear to be several reasons for this problem including: (a) confusion over the behaviors desired by the organization so that the employee is unable to direct efforts in ways that will activate the reward systems; (b) conflicting



reward systems where behaviors rewarded by one part of the system are punished by another; and (c) the reward of inappropriate behaviors. The first two might be described as "demotivating systems" that lead to reduced efforts to accomplish organizationally desirable goals. The last is best described as a "disincentive system" that channels effort toward goals not desired by the organization.

### Demotivating Systems

Factors related to confusion over what is desired. If the organization and the employee disagree about which behaviors are desired and rewarded and which are undesirable and punished, it is extremely unlikely that the organizational incentive system will lead to greater employee satisfaction or performance. Similarly, an inability to identify and engage in behaviors that lead to desired reinforcements produces learned helplessness and reduced effort (Seligman, 1975). Thus, clarity about desirable and undesirable behaviors is essential if employees are to pursue organizational values and goals (Bandura, 1977). Unfortunately, a major problem encountered in the administration of many incentive programs is management's inability to communicate accurately which employee behaviors will attain a reward (Hamner, 1979). Thus, employees may fail to identify clearly positive behavior patterns even though they may understand the behaviors that cause rewards to be withheld (Luthans et al., 1981). Hamner argued that a primary source of such confusion was disagreement between managers and employees about the message communicated by an award. An example of such possible disagreement is the award of a satisfactory performance rating. Management generally considers this a desirable rating to be rewarded by merit pay increments,

increases in tenure-related benefits, and so forth. It is also considered a clear communication that the recipient is performing well and is a valued employee. Employees may interpret it quite differently however. In most organizations, a broad range of performance is subsumed under the satisfactory category. Employees who perceive themselves to be at the edges of the next higher performance level may feel that the implicit equation of their efforts with persons at the lower edges of the category represents a punishment rather than a reward (Adams, 1965). This tendency is strengthened by the inclination to overrate one's own performance (Meyer, 1975, Schrauger, 1975) and thus believe that a higher rating was deserved. Similarly, a marginal performer might view the receipt of a satisfactory rating as a tangible indication that his or her performance is acceptable despite supervisor comments to the contrary. Such an individual may thus feel no need to upgrade that performance. Similar interpretations are likely when coworkers observe apparently identical treatment for individuals with ostensibly different levels of performance (Bandura, 1977; Manz & Sims, 1981; Weiss, 1977).

The potential for confusion is underscored by recent studies of the reward and punishment values that employees attach to supervisor actions commonly undertaken as positive or negative responses to employee performance (Jones, Butler, & Dutton, 1982; Jones & Tait, 1982). These studies suggested that many actions which subordinates viewed as punishing were potentially inadvertant by-products of other positively valued behaviors by the supervisor. For example, a supervisor who praises several members of a workgroup might unintentionally punish persons not mentioned. Likewise, a supervisor might postpone actions on employee requests to attend to task-

related or management priorities. The ensuing delay may not affect final action on the request, but might cause the employee to view the handling of the request as punishing.

A further source of possible confusion about desired and undesired behaviors rests in the perceptual/cognitive processes of organizational members. Bandura (1977) argues that beliefs about the consequences of behavior are likely to exert greater influence on behavior than the consequences themselves. He suggests that a major factor in the individual's response to environmental events is the person's sense of self-efficacy (i.e., the conviction that one can successfully perform a behavior that will produce a set of outcomes).

A distinction must be drawn between information contained in environmental events and information as processed and transformed by the individual. . . . When experience contradicts firmly established expectations of self-efficacy, they may undergo little change if the conditions of performance are such as to lead one to discount the impact of the experience. (pg. 200)

Bandura argues that individuals with a low sense of self-efficacy may feel that desirable outcomes are outside their reach even when there is objective evidence to the contrary. Thus, these individuals may remain relatively impervious to the objective system. Bandura notes in another portion of the above article that in the absence of externally mediated rewards for self-consistent behavior, individuals create self-mediated inducements to persist in their efforts until their performance matches personally prescribed standards. Thus, many forms of individual behavior may exist within an organization even when there are few visible incentive

processes to sustain them.

Conflicting reward systems. Closely allied with the issue of confusion over reward-producing behaviors is the presence of conflicting reward systems. A familiar example of such conflict is seen in Whyte's (1955) description of a piece-rate incentive plan in a manufacturing plant. A clear contingency existed between pay and productivity. Individuals were paid a preset amount for each unit produced. Thus, greater productivity led directly to greater pay. Unfortunately, an equally clear contingency existed where peer approval required performance within a narrowly defined range. The result was that few individuals exceeded the peer-group norms. Other examples are also available. Rewards for preventive maintenance and few equipment breakdowns are often in conflict with productivity incentives that require extended equipment operation. Reward systems based on the quality of the final product may be at odds with other systems that reward productivity solely in terms of the quantity produced. Finally, a goal-setting program which rewards only the attainment of preset goals may discourage risk, innovation and flexibility.

Recent research has suggested still other areas where incentive systems may be in conflict (Lawler, 1971). In many pay incentive programs, pay increases up to 15 percent are linked to performance, although all but the worst performers can count on a tenure-related increment of 5 to 8 percent. For some employees, the increase in effort required to attain above-average compensation is disproportionate to the reward, especially when the probable costs of decreased social interaction, reduced free time, and even peer disapproval are considered. Further, an overemphasis on providing extrinsic rewards for behaviors generally viewed as sources of intrinsic

gratification may reduce their potential to provide such intrinsic reward and result in persons performing them only when extrinsic reward is present (Deci, 1971; Greene & Lepper, 1974). Thus, variable incentive systems might reduce effort for some tasks.

Conflict is possible also between organizational reward systems and professional values, norms, and reward systems (Greene, 1978). Individuals in professional and technical positions may be forced to choose between actions that meet explicitly stated organizational goals versus those which meet professional goals (e.g., showing loyalty to a specific company versus advancement of professional reputation). Union employees may face a similar dilemma where traditional bargaining tactics produce increased short-term benefits and greater pay while reduced labor costs retain individual positions within the company.

Reward of inappropriate behaviors. Kerr (1975) suggested that organizational systems often actively reward behaviors the organization is trying to discourage. Little thought is needed to suggest examples of such systems. Lawler (1971) noted that the common practice where employees lose "sick leave" days that are not taken encourages employees to use those days even if they are not sick. Similarly, Steers and Rhodes (1978) argued that the use of paid overtime to make-up for work lost on sick leave encouraged unwarranted absenteeism.

Reward systems may produce unwanted behaviors also because they curtail options for more desirable behaviors, provide equal or greater reward for undesirable actions, or apply to inappropriate phases of action. Gupta and Beehr (1979) describe the situation where an employee desires to leave the organization to escape adverse effects of stress but feels locked

in because of organizationally-related benefits. Such a person is likely to reduce the stress through increased absenteeism and reduced effort. In a similar vein, Staw and Oldham (1978) noted a negative correlation between absenteeism and performance when the job was compatible with individual needs but a positive correlation when it was not. Kleeman (1979) offers other examples in terms of the tactics frequently taken to deal with non-productive federal employees. Because of difficulties in applying formal sanctions, managers frequently assign these persons to simple tasks, give them transfers (often with increases in pay), or send them on extended training or travel assignments. Performance ratings for such individuals remain average and equivalent to their higher producing coworkers.

The application of reward to inappropriate phases of the action is discussed by Lawler (1971) who noted that organizations frequently reward people for following rules or established processes and procedures even when these procedures no longer lead to the outcomes they were designed to ensure. Maguire and Ouchi (1975) suggested a further negative consequence for the reward of processes when they noted that close output supervision improves employee satisfaction, while close behavioral supervision does not.

While there has been considerable discussion of the possible effects and by-products of different organizational incentive systems and reward climates (cf. Lawler, 1971; Steers & Porter, 1979; Whyte, 1955), much of this discussion has been speculative in nature or based upon short-term situations involving student populations. There has been relatively little systematic research that directly generalizes to organizational settings.

One exception to this statement is a recent study by Greene and Podsakoff (1981). These authors compared two autonomous paper mills within

a large manufacturing company. One plant was scheduled to change from a pay-incentive plan that had been in effect for four years to a flat-rate pay system where seniority was the primary determinant of advancement. The reason for the change was given as poor management-employee relations and employee opposition to the pay-incentive plan. A second plant retained an identical pay-incentive plan that had operated for the previous six years. This plan involved monthly performance appraisals where the employee's immediate supervisor compared the individual's performance with the performance of all other subordinates. Ratings were made on several dimensions, including quality and quantity of performance, waste, attendance, cooperation, and attitudes toward work. These supervisor appraisals, combined with changes in plant productivity, formed the primary determinant of the employee's monthly wage incentive.

Prior to the change in incentive systems, the authors found few differences in subordinate perceptions of the types of influence power used by the supervisors of the two plants. Twelve months after the changeover, several differences were noted. Subordinates at the flat-rate or seniority-based plant reported that their supervisors had less ability to influence employee behavior through reward but were more likely to resort to punishment than were their counterparts at the pay-incentive plant. On the other hand, employee satisfaction with pay had increased. Possible differences in performance or overall satisfaction were not reported.

The above findings verify the importance of the organizational incentive system in determining individual perceptions of organizational reward climate but may have been confounded by the generally poor level of management-employee relations that existed prior to the change-over. For example,

Beer and Gery (1972) reported that the less frequently an individual is provided feedback and reward based on performance, the greater the desire for a seniority-based rather than a merit-based reward system. Thus, the effects might have been different had the general management-employee climate of the organization been more positive. The present study was an attempt to explore how different organizational reward systems affect (a) individual perceptions of behavior-outcome contingencies for the organization in general (i.e., the perceived reward climate), and (b) individual attitudes and performance when the remaining organizational conditions are similar. Two reward systems operated within the same organization and applied differentially to persons performing identical jobs within the same workgroups. One was a merit-based system where pay, promotions and benefits were linked to formal performance appraisals. In the other, rewards predominantly reflected tenure, although an adverse or unsatisfactory performance rating could cause the rewards to be delayed or withheld. Because these individuals performed identical jobs under the same supervisor and worked with the same coworkers, it appeared that the situational influences related to supervisor and job demands would be essentially identical except as affected by the differential administration of the reward system.

Based on the existing literature, several differences were expected among employees in the two reward systems:

1. It was expected that the perceived reward climate would differ between the two systems, where individuals in the tenure-reward condition would perceive little relationship between employee behavior and organizationally mediated outcomes whereas these relationships would be stronger in the behavior-contingent system.



2. It was expected that the perceived reward climate would predict attributions of control over desirable outcomes and job related attitudes in the behavior-contingent group more strongly than in the tenure-contingent group.

3. It was expected that personality measures and individual predispositions would predict performance and attitudes more strongly in the tenure-contingent group than in the behavior-contingent group.

### Method

#### Sample

The sample consisted of military ( $N = 73$ ) and civilian nurses ( $N = 50$ ) employed on the medical wards of a large naval hospital. All performed similar jobs and both groups reported to the same supervisors. Four separate groups, each with its own supervisor, were involved. For the military nurses, pay and formal rewards were primarily a function of tenure rather than performance. Although adverse performance appraisals could delay promotion, positive appraisals did not lead directly to formal positive outcomes. The civilian nurses, on the other hand, functioned within a formal merit pay system where promotions, pay raises and cash awards were attainable through outstanding performance ratings or judgments of sustained superior effort. While both groups performed similar duties and reported to the same supervisors, there were certain demographic differences. The civilian employees were generally older ( $\bar{X} = 24.7$  versus 38.8 years;  $F = 86.75$ ,  $p < .01$ ) and had been with the organization longer ( $\bar{X} = 1.2$  versus 4.1 years;  $F = 20.53$ ,  $p < .01$ ).

### Instruments

Perceived reward climate. The perceived reward climate was measured by asking each respondent to read five scenarios depicting different patterns of employee behavior (see Table 1). Two of the scenarios described patterns of behavior generally viewed as organizationally desirable (i.e., extra effort and career advancement behaviors). Three scenarios depicted behavior patterns generally viewed as undesirable (i.e., minimal effort or concentration on certain portions of the job to the detriment of other important areas). The scenarios, developed through interviews with health care personnel and supervisors, were designed to depict behavior patterns that were clearly viewed as desirable or undesirable by the organization but which would not automatically activate the formal incentive or discipline system.

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Insert Table 1 about here  
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Respondents were asked to read each scenario and indicate the probability that the described behavior pattern would produce various positive or negative reactions from their supervisor and the organization. The estimated probability was indicated on a 5-point scale (1 = extremely unlikely, 5 = extremely likely). Potential reactions were similar to those described by Sims and Szilagyi (1975) in their Leader Reward Behavior Instrument. Responses were combined to reflect perceived incentive, demotivation, and disincentive systems.

Incentive systems were measured in terms of the perceived probability that positive behaviors would be rewarded by such outcomes as awards, increased pay, or greater privileges and authority (Positive Incentives,

6 items,  $\alpha = .75$ ) or that undesirable behavior patterns would be punished by fines, demotion, reduced privileges, lower performance ratings, and so forth. The latter scales reflected perceived punishment probabilities for inadequate effort and failure to perform difficult or time-consuming tasks (Negative Incentive--Effort, 5 items,  $\alpha = .63$ ), overly rigid adherence to rules that jeopardized high priority goals (Negative Incentive--Process I, 5 items,  $\alpha = .76$ ), and failure to comply with organizational rules and expectations (Negative Incentive--Process II, 5 items,  $\alpha = .72$ ).

Demotivating systems were measured in terms of the perceived probability that positive behavior would produce no positive reaction from the organization (Demotivating--Positive Behavior, 4 items,  $\alpha = .60$ ) and the perceived probability that positive and negative behavior patterns would receive similar treatment (Demotivating--Negative Behavior, 4 items,  $\alpha = .46$ ).

Disincentive systems were measured in terms of the perceived costs of positive behavior (Disincentive--Positive Behavior, 10 items,  $\alpha = .86$ ) and the perceived rewards for negative behavior patterns (Disincentive--Negative Behavior, 5 items,  $\alpha = .67$ ).

Attribution of control. Employee attributions of control over desirable organizational outcomes were assessed by 18 items that asked the individual to indicate the extent to which (1 = not at all, 5 = to a very great extent) outcomes such as job security, personal growth opportunities, job prestige, challenging work, the quality of job performance, and decision-making authority depended upon: (a) the individual's own effort (Self-attribution, 6 items,  $\alpha = .79$ ), (b) the activities of superiors (Upward-attribution, 6 items,  $\alpha = .81$ ), and (c) luck or outside factors (Chance-attribution, 6 items,

$\alpha = .87$ ).

Individual difference measures. Individual difference measures included Rosenberg's (1965) Self-Esteem Scale ( $\alpha = .79$ ), Aldag and Brief's (1975) Protestant Ethic Scale ( $\alpha = .53$ ), and Buckholz's (1978) Leisure Ethic ( $\alpha = .43$ ), and Humanistic Ethic measures ( $\alpha = .71$ ). The last measure tapped a general orientation that the work environment should provide for human growth and fulfillment.

Job attitude measures. Job attitude measures consisted of a three-item job satisfaction measure (adapted from Hackman & Oldham, 1975;  $\alpha = .82$ ), a measure of job involvement (Lodahl & Kejner, 1975;  $\alpha = .71$ ), and a single item measure of motivation to improve performance ("I try very hard to improve on my past performance at work").

Performance appraisal. Employee performance was measured by means of the organization's formal performance appraisal form which was completed by each participant's designated supervisor. This appraisal consisted of a 9-point comparative rating scale where the supervisor was instructed to rate each employee compared with all other persons with similar levels of experience observed in similar jobs in the past. Ratings were generally in terms of percentage categories (e.g., 9 = top 1%, 5 = top 50%). Performance was evaluated on five dimensions: goal setting and achievement, working relations, equipment and material management, organizational support, and responses to stressful situations. In spite of well-founded concerns about the meaning of such performance ratings (Landy & Farr, 1980), they appeared to be most appropriate for the present study because they played an essential role in determining future reward and punishment probabilities in both samples. Ratings

were combined into a single overall performance score ( $\alpha = .95$ ).

## Results

### Between-Group Differences in Mean Scores

Assessment of mean score differences was accomplished by a series of multiple discriminant analyses, where membership in the tenure-based or merit-based group formed the classification variable and the reward-climate, attribution, personality, job attitude and performance measures provided respective sets of dependent variables.

Perceived reward climate. The hypothesis that employees within the two systems would perceive different reward climates was not supported (see Table 2). The MDA revealed no significant functions, suggesting that individuals within the tenure-based system described the reward climate in terms of behavior-outcome contingencies that were very similar to those described by employees in the merit-pay system. There was general agreement that the organization was unlikely to respond favorably to desirable behavior or unfavorably to negative behavior patterns involving compliance with rules or policies. Only behavior which combined inadequate effort with border-line insubordination was described as likely to produce punishment. Further, perceptions that positive behavior would not be rewarded were combined with perceptions that the organization would do little to equalize the added work load carried by the hard-working employer.

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Insert Table 2 about here  
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Attributions of control. Differences in attributions about the degree to which the achievement of desirable outcomes depended on self-initiated efforts versus the actions of superiors or outside elements are also shown in Table 2. The MDA produced one discriminant function ( $\chi^2 [3] = 19.56, p < .01$ ). While both groups indicated that their own efforts played a major role in achieving desirable outcomes (there were no significant between-group differences on this measure and the means were near the upper end of the scale), the employees in the tenure-based system perceived greater control residing in the supervisor than did employees in the merit pay system. Finally, the tenure-based employees attributed greater influence to outside or chance factors.

Personality differences. A comparison of personality scores suggested few differences between the tenure-contingent and the behavior-contingent groups. An MDA produced no significant functions. Only the self-esteem measure yielded significant between-group differences with employees in the merit-pay system reporting somewhat higher scores (see Table 2). No differences were found for the Protestant, Leisure, or Humanistic Ethic measures, suggesting that such work-related values were similar for the two groups.

Job-related attitudes and performance. Table 2 also portrays the results of between-group comparisons on the job attitude and performance measures (one significant function,  $\chi^2 [3] = 15.48, p < .01$ ). The merit-based employees reported higher mean scores on all the job attitude measures, although only the differences on the career intent and job satisfaction measures were significant. Differences on the performance ratings were opposite in direction. The members of the tenure-based group received significantly higher appraisals

than did the members of the merit-pay group ( $\bar{X} = 7.32$  vs.  $6.56$ ;  $F [1,122] = 8.92$ ,  $p < .05$ ).

Supervisor differences in perceived reward climate. To test the degree to which the individual supervisor was a primary influence on employee perceptions of the reward climate, these measures were subjected to an additional discriminant analysis, where the supervisor represented the classification variable. These differences are described in Table 3 and suggested that the supervisor exerted a significant, though not extremely powerful influence on individual perceptions of the reward climate. Significant differences were found on four of the eight measures (one significant function,  $\chi^2 [24] = 39.87$ ,  $p < .01$ ). Thus, in spite of the indication that employees perceived few differences as a function of assignment to a tenure-based versus merit-based incentive system, they did appear to recognize differences in the manner that different supervisors administered rewards and punishments. There were no significant differences among the groups assigned to the different supervisors on measures of attribution of control, personality or performance. Job attitudes also yielded no significant between-group differences except for the measure of motivation to improve ( $F [3,119] = 3.10$ ;  $p < .05$ ). These data suggested that the individuals assigned to the different supervisors were relatively homogeneous in orientation and behavior.

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Insert Table 3 about here  
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#### Prediction of Organizationally-Related Attitudes

In spite of the fact that there were no between-group differences in

perceived reward climate, the hypothesis that perceived reward climate would show differing relationships with organizationally relevant attitudes was supported (see Table 4). Within the tenure-based group, the perceived reward climate measures were not significant predictors for the measures of job satisfaction, job involvement, or intent to remain within the organization. In the merit-based group, however, significant relationships were found between the incentives measures and all three of the job attitude measures; the demotivating scales were related to intent to remain; and the disincentive scales were related to the intent to remain and to job involvement. Correlations with performance were not significant in either group and are not reported in the table. Only self-esteem was related to performance ( $r = .22$  for the tenure-based, and  $r = .28$  for the merit-based employees).

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Insert Table 4 about here  
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Further, a comparison of hierarchical regression models incorporating the combined sets of perceived climate, attributions and personality variables (also shown in Table 4) suggested that the various predictors resulted in similar magnitude of prediction but from different sources. For example, the primary source of prediction within the tenure-based system was individual personality, with relatively little additional variance attributable to perceived climate or attribution measures. For the merit pay sample, however, perceived climate and attribution of control measures were the primary sources of prediction. Only for the job satisfaction measure did the addition of personality measures produce a significant increase in prediction. Thus, general support was provided for the second and third hypotheses.



## Discussion

A major assumption in much of the previous literature about organizational climate is that individuals who experience common organizational conditions will perceive those conditions in generally similar ways and will behave in a predictable if not similar manner as a result of that common experience (cf. Drexler, 1977; Guion, 1973; Jones and James, 1979 for a discussion of this assumption and its implications). To date, however, the research findings have generated little evidence that membership in the same organization is a major influence upon employee perceptions of climate (James, 1982; Jones & James, 1979; Payne & Mansfield, 1978). The present study was an attempt to address this concern from a dual perspective: (a) measurement emphasis on an aspect of climate that was primarily determined by policies at a macro-organizational level, and (b) comparison of individuals who were subject to different organizational policies but were otherwise the same in terms of jobs performed, workgroup membership, and common supervisor and coworker assignments. It was expected that in the absence of primary differences in influences from job, leader, and coworkers, influences that were solely attributable to conditions at the organizational level would be enhanced and thus be more easily identifiable.

Because individuals differed systematically in the formal organizational reward system under which they worked, it was anticipated that members of the two groups would perceive different reward climates that would be translated into differences in perceived ability to control access to organizational outcomes and finally into different job attitudes and different levels of performance. The reward climate instrument asked individuals to describe how their organization treats various specific patterns of behavior rather than

the global appraisals found in many climate measures (e.g., "The reward climate here is fair.", "People are rewarded for what they do, not who they know."). The rationale for such a focus was that employees learn about the workings of an organizational incentive system both directly and indirectly. While some of the information is drawn from the individual's own experience, much is also obtained by observing what happens to other people in the organization (Lawler, 1971; Manz & Sims, 1981; Weiss, 1977). It was assumed that the appraisal of the perceived reward climate would be more sensitive to differences in organizational level experience if the measure addressed the treatment of specific patterns of behavior that were readily observable by employees. Somewhat surprisingly, the expected differences in perceived reward climate were not found. Being subject to different formal reward systems did not produce systematic differences in perceptions about organizational responses to various desirable or undesirable patterns of behavior. Several potential explanations exist for this finding.

First, the differences in the objective reward system had evident implications for the treatment of performance. Further, those differences were easily discernible to an outside observer. However, as noted above, the perceived reward climate incorporates both direct and indirect experience. Because employees subject to both systems worked together, it appears reasonable to presume that they also observed how coworkers in both systems were treated. Thus, it is likely that their perceptions of the reward climate reflected both sets of observations as well as verbal comparisons with coworkers. Such dynamics would tend to produce general agreement about how the organization treats various patterns of employee behavior even though there are likely to be differences in individual perceptions of influences

that apply strictly to that person (e.g., individual expectancies or attributions of control over outcomes).

In fact, there was evidence that individuals within the two systems perceived differences in the avenues that produced desirable outcomes. For example, both groups indicated that their own efforts exerted substantial influence upon the attainment of desirable organizational outcomes. The two groups differed, however, in the degree of influence attributed to the supervisor and to outside or chance factors. Employees in the merit-based condition described these factors as less influential than did employees in the tenure-based system. These findings suggest that merit-based employees perceived self-initiated efforts as primary avenues to attainment of outcomes such as job security, personal growth opportunities, job prestige, and so forth. Tenure-based employees, on the other hand, appeared to describe a situation where self-initiated efforts were necessary but not sufficient to attain the outcomes; supervisory and chance influences also played a key role.

Although such results are unexpected given the nature of a tenure-based system, some insight is shed by the Greene and Podsakoff (1981) study. These authors reported that a supervisor's inability to reward positive behavior leads to an emphasis on punishment. In the case of the tenure-based employees, the supervisor could do very little to produce short-term organizational rewards through differential performance evaluations, but was able to initiate disciplinary action for flagrant violations or affect long-term outcomes adversely through a poor evaluation. Indeed, employees in both systems described the hospital as what Luthans et al. (1981) have called a negatively controlling organization. In other words, the organization was likely to punish negative behavior that reflected a combination of poor

performance, poor attitudes, and inadequate effort but ignore most other patterns of positive or negative behavior.

Such an explanation might also help to explain the differences in rated performance where performance appraisals were systematically higher for members of the tenure-contingent group than for the merit-based group. This difference is inconsistent with the literature cited earlier about the effects of performance-contingent reward and punishment. Part of the reason for the apparent inconsistency seems to lie in the differing importance of the performance appraisal. Decisions about pay, promotion and awards within the merit pay system directly involved the performance appraisal process and were made annually within the organization. Thus, an employee who failed to achieve a performance-based reward one year could theoretically attain the reward later through superior performance. Thus, only the most recent appraisals exerted a substantive influence on most reward or punishment decisions. Within the tenure-based systems, pay decisions were automatic as a function of tenure within a particular pay grade. Promotion to a higher level, however, required decisions made as part of a review process conducted independent of the immediate organization. Performance appraisals were a part of the information considered but included appraisals for previous as well as current years. Thus, the potential negative impact of any single performance appraisal was enhanced. Interviews with members of the tenure-based system suggested that they indeed viewed any but the most positive appraisals as de facto negative evaluations harmful to future opportunities.

While the hypothesis that membership in one or the other incentive systems would produce different perceptions of the reward climate was not supported, the hypothesis that such membership would produce differential

relationships between climate and job attitudes was supported. Within the tenure-based group, reward-climate perceptions were unrelated to attitudes such as satisfaction, intent to remain within the organization or job involvement. For this employee group, the primary predictors of job attitudes were the personality characteristics and values brought into the organization with them. Within the merit-based group, however, the perceived climate measures were related to job attitudes. For this group, in fact, the inclusion of personality and value measures added little predictive variance over and above that contributed by the reward climate measures. The relative contributions of predictive variance related to the attribution of control measures were similar in both groups.

Such findings suggest that individuals with equal opportunities to observe the actions of alternative reward systems upon themselves and coworkers will form similar perceptions of the reward climate. However, the degree to which these perceptions influence individual behavior depends upon the degree to which the reward system makes the climate salient to the individual. In situations where behavior-reward contingencies are salient to some persons but not others, the actions fostered by the system will be observed by both groups but acted on only if they are relevant to the individual. For example, Podsakoff, Todor, and Skov (1981) found that the use of performance-contingent punishment was related to job satisfaction for low performers but not for high performers. If contingencies are not relevant to the individual, job attitudes are likely to reflect individual values and other inputs rather than situational cues. For example, Weiss (1977) argued that employees seek information about the path to good performance regardless of the extrinsic rewards associated with performance and Bandura (1977) noted

that employees will use self-administration of rewards to ensure that their performance matches their personally prescribed standards.

The data in the present study, combined with the Weiss (1977) and Podsakoff et al. (1981) findings suggest that individuals may indeed make a distinction between perceptions of the general organizational climate as it applies to the average or normative individual within the organization and the climate described in terms of behavioral implications for themselves. While both types of perception have meaning for behavior, it is unlikely that the implications are identical. Thus, future research should seek to determine the degree to which individuals draw such distinctions in forming perceptions of climate as well as the areas of organizational behavior in which each type of perception is relevant.

The above findings are important also to the continuing controversy whether perceptions of climate are conceptually distinguishable from job satisfaction (cf. Guion, 1973; Johannesson, 1973). The present data tend to support arguments that they are indeed distinguishable (cf. James & Jones, 1980; Jones & James, 1979; Jones & Butler, 1980; LaFollette & Sims, 1975). To the degree that differences in applications of organizational reward policies lead to different patterns of relationship between job perceptions and job attitudes, it becomes more difficult to argue that the latter two concepts are identical.

Moreover, the data question organizational models that over-emphasize a directional flow from organizational policy → perceived climate → job attitudes or even models which stress too heavily the reciprocal causal link between job perceptions and job attitudes. The present findings suggest that the magnitude of such a relationship and the subsequent influence on attitudes

and behavior depend heavily upon the degree to which other conditions make the perceived climate salient to the individual. In the past, it has been largely assumed that those conditions resided primarily within the individual in the form of needs, previous experience, and so forth. The present study suggests that organizational conditions and policies may also play an important moderating role.

Many of the arguments that might be made in the present discussion are weakened somewhat by the lack of relationship with performance. Insofar as the performance appraisal reflected the data used by the organization to provide incentives, it is difficult to understand why differing performance appraisal was not related to perceived reward climate at least within the merit-based employee group. Perhaps, the explanation is as simple as that suggested in recent study by Kipnis, Schmidt, Price, and Stitt (1981) who found no direct path between subordinate performance and supervisor evaluations. They concluded "Level of subordinate performance did not influence the evaluation directly" (p. 327).

This observation suggests that performance appraisal and thus organizational reward includes events and observations that are only partially performance related. For example, Sims (1977) conducted a longitudinal study of reward processes and found that high performers perceived a reduction of contingent rewards over a six month period while low performers perceived an increase. Similarly, Kipnis and Vanderveer (1971) suggested that a combination of average performance and ingratiation produced higher performance appraisals than were attainable through average performance alone.

A further point regarding the lack of relationship with performance concerns individual interpretation of the reward process. Lawler (1971)

argues that the more the appraisal system yields outcomes that are congruent with employee consensus, the more employees will believe that a merit system exists. He suggests that employees must feel that performance appraisal is responsive to employee behavior rather than a variety of other events. The perceived climate scores suggest that the employees might have been able to perceive a reward climate but may not have viewed that climate as merit-based. Thus, while employees were able to describe the manner in which the organization treated various patterns of behavior and were able to identify ways in which their own efforts would produce desirable outcomes, it is likely that these strategies included patterns of behavior that were not dependent upon actual performance (Kipnis et al., 1981).

A final word of caution is necessary in interpreting the present results. As noted earlier the study focused on perceptual influences exerted by policy differences at a macro-organizational level. In achieving this focus, every attempt was made to equalize influences due to supervisor, job, or coworkers. The results should not be used to argue that such influences do not exist or are irrelevant to the implications of the perceived reward climate. Indeed, there were significant differences in perceived reward climate among the different supervisors reported by employees in both incentive systems. Thus, it is likely that individual supervisors may be able to buffer the formal incentive system and exert influences that increase or reduce the efforts of the formal system. This issue should be addressed in future studies.

In sum, the present study suggests that individuals who observe similar organizational events will develop similar perceptions of the reward climate. The influence of such perceptions upon employee attitudes and behavior will depend, however, on the degree to which organizational policies and other conditions make the perceptions relevant to the individual.



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Table 1

Behavioral Scenarios Presented in Reward Climate Instrument

In the two years that NURSE ROBERTS has worked at the hospital, she consistently has been described as one of the best nurses around. She approaches her job with great energy and enthusiasm. When she finishes her own work, she helps the people around her. Recent staffing cutbacks have made it difficult to complete all of the required work (especially chart maintenance) during a normal shift. Nurse Roberts voluntarily stays late to help.

LVN BARKER has been a steady, reliable employee of the hospital for several years. During this time, she has accumulated more than 300 hours of available sick leave. She is generally regarded as one of the most capable LVNs on the staff and has worked steadily to improve herself professionally by taking courses at a nearby community college. LVN Barker uses all her breaks and any spare time during her shift to study or to complete her class assignments.

JOHN EDWARDS is responsible for ward supplies. The hospital is seeing a greater number of patients than ever and is placing greater demands on John. After a recent inspection, John was instructed to keep better records about what supplies are used and who uses them. When faced with a choice between letting the records slide or encountering delays in filling requests for supplies, John concentrates on the records, arguing that it is better to keep people waiting than to get written up again at the next inspection.

NANCY MILLER is an LVN on a medical ward. She is a hard worker when she is doing anything related to patient care no matter how difficult or dirty the task. Nancy's attitude about her job is "As long as I get the work done right, I don't want anyone telling me what to do." Consequently, she often ignores purely administrative requirements that she feels interfere with her ability to provide good patient care. She also tends to be a few minutes late in the morning or returning from lunch but says that she makes up for it by staying late.

When JOHN BLANK was first assigned to the ward, he worked very hard to build a reputation as a willing and enthusiastic worker. During the last month, however, he has started to avoid difficult or time-consuming jobs. He passes these jobs off to others, telling everyone that he is going to do only what he has to do to get by. He refuses to take on any task normally assigned to a more junior person, saying that these tasks are beneath him and don't use his training and experience.



Table 2

Comparison of Perceived Reward Climate, Attribution, Personality and Job Attitude  
Scores for Tenure-Based Versus Merit-Based Employees

	Mean		F	R <sup>2</sup>
	Tenure Based (N=73)	Merit Based (N=50)		
Incentive				
Positive Incentive	2.82	2.70	1.00	.01
Negative Incentive--Effort	3.37	3.32	0.16	.00
Negative Incentive--Process I	2.55	2.60	0.22	.00
Negative Incentive--Process II	2.85	2.91	0.30	.00
Demotivating				
Demotivating--Positive Behavior	3.23	3.39	1.77	.01
Demotivating--Negative Behavior	2.99	3.02	0.05	.00
Disincentive				
Disincentive--Positive Behavior	1.85	2.05	3.44	.03
Disincentive--Negative Behavior	2.38	2.36	0.06	.00
Attributions				
Self-Initiated	3.96	4.05	0.61	.01
Superior-Controlled	3.50	2.84	18.81*	.14
Chance	2.31	1.94	5.36*	.04
Personality				
Self-Esteem	3.82	4.05	5.60*	.04
Protestant Ethic	3.42	3.51	0.76	.01
Humanistic Ethic	4.40	4.37	0.17	.00
Leisure Ethic	3.24	3.51	3.60	.03
Attitude				
Job Involvement	2.67	2.88	3.34	.03
Career Intent	3.19	3.92	15.74*	.12
Job Satisfaction	3.07	3.42	3.70*	.03
Improvement Motivation	4.23	4.36	1.30	.01

---

\*p < .05

Table 3  
Differences in Perceived Reward Climate Related to  
Differences in Supervisor

	Mean				F	R <sup>2</sup>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>		
Incentive						
Positive Incentive	2.99	3.22	2.76	2.64	2.65*	.06
Negative Incentive--Effort	3.49	3.86	3.31	3.16	5.04*	.11
Negative Incentive--Process I	2.68	2.38	2.53	2.62	1.01	.03
Negative Incentive--Process II	2.84	3.11	2.85	2.83	0.84	.02
Demotivating						
Demotivating--Positive Behavior	3.00	3.11	3.28	3.46	3.01*	.07
Demotivating--Negative Behavior	2.92	2.99	2.96	3.07	0.47	.01
Disincentive						
Disincentive--Positive Behavior	2.01	1.69	1.86	2.02	1.65	.04
Disincentive--Negative Behavior	2.58	2.61	2.39	2.21	4.14*	.10
Attributions						
Self-Initiated	3.94	4.08	3.93	4.03	0.29	.01
Superior-Controlled	3.19	3.32	3.40	3.12	0.80	.02
Chance	1.93	2.13	2.38	2.11	1.21	.03

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\*  $p < .05$

Table 4  
Hierarchical Comparison of Prediction of Job Attitudes for Tenure-  
Based Versus Merit Pay Employee

Multiple Regression Coefficients							
Predictor Set	# of Pred	Tenure Based N = 73			Merit Pay N = 50		
		Intent to Remain	Job Involvement	Job Satisfaction	Intent to Remain	Job Involvement	Job Satisfaction
A. Incentives	4	.24	.30	.32	.46*	.43*	.53*
B. Demotivating	2	.17	.27	.18	.35*	.15	.27
C. Disincentive	2	.24	.19	.31	.34*	.40*	.23
D. Personality	4	.26	.55*	.56*	.29	.31	.47*
E. Attributions	3	.34*	.31	.39*	.25	.46*	.46*
Additive Models							
A+B+C	8	.36	.33	.39	.61*	.54*	.56*
A+B+C+D	12	<u>.49</u>	<u>.63*</u>	<u>.66*</u>	.65*	.57*	<u>.66*</u>
A+B+C+E	11	.50	<u>.44</u>	<u>.53*</u>	.65	<u>.67*</u>	<u>.76*</u>
A+B+C+D+E	15	.57	.65*	.71*	.68*	.68*	.80*

\*p < .05

NOTE: Underlined coefficient represents significant addition (p < .01) over smaller partial model.

Footnotes

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New London, Box 900  
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Naval Aerospace Medical  
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Naval Air Station  
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Program Manager for Human  
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National Naval Medical Center  
Bethesda, MD 20014

Navy Medical R&D Command  
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Bethesda, MD 20014

LIST 6/NAVAL ACADEMY AND NAVAL POST-  
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Naval Postgraduate School  
ATTN: Dr. Richard S. Elster (Code 012)  
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LIST 6/NAVAL ACADEMY AND NAVAL POST-  
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Operations Research and  
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Superintendent  
Naval Postgraduate School  
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Monterey, CA 93940

Naval Postgraduate School  
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Monterey, CA 93940

Naval Postgraduate School  
ATTN: Dr. Richard A. McGonigal  
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Professor Carson K. Eoyang  
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Superintendent  
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Alameda, CA 94591

Officer in Charge  
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LIST 7/HRM (continued)

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Mayport, FL 32228

Commanding Officer  
Human Resource Management Center  
Pearl Harbor, HI 96860

Commander in Chief  
Human Resource Management Division  
U.S. Pacific Fleet  
Pearl Harbor, HI 96860

Officer in Charge  
Human Resource Management Detachment  
Naval Base  
Charleston, SC 29408

Commanding Officer  
Human Resource Management School  
Naval Air Station Memphis  
Millington, TN 38054

Human Resource Management School  
Naval Air Station Memphis (96)  
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Commanding Officer  
Human Resource Management Center  
1300 Wilson Boulevard  
Arlington, VA 22209

Commanding Officer  
Human Resource Management Center  
5621-23 Tidewater Drive  
Norfolk, VA 23511

Commander in Chief  
Human Resource Management Division  
U.S. Atlantic Fleet  
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Naval Military Personnel Command  
HRM Department (NMPC-6) (2 copies)  
Washington, DC 20350

Naval Training Analysis  
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Orlando, FL 32813

Commanding Officer  
ATTN: TIC, Bldg. 2068  
Naval Training Equipment Center  
Orlando, FL 32813

Chief of Naval Education and Training (N-5)  
Director, Research Development, Test  
and Evaluation  
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Pensacola, FL 32508

Chief of Naval Technical Training  
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Navy Recruiting Command  
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LIST 8/NAVY MISCELLANEOUS (continued)

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Newport News Shipbuilding &  
Drydock Company  
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Headquarters, U.S. Marine Corps  
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Education Advisor  
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Commanding Officer  
Education Center (E031)  
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LIST 14/MISCELLANEOUS

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LIST 14/MISCELLANEOUS (continued)

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